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SUBJECT: THE ONGOING NITEL - PENTASCOPE SCANDAL

¶11. (U) Summary: Privatization of the Nigerian Telecommunications Ltd. (NITEL) has faltered for the second time. Amid great controversy, the GON fired the Dutch management company, Pentascope, appointed to shepherd the process. Though the GON terminated the Pentascope contract in March 2005, the matter still captures headlines. National Assembly members continue to target the combative former Bureau of Public Enterprises (BPE) boss and current Minister of the Federal Capital Territory, Nasser El-Rufai. Back to the drawing board, the BPE is reviewing potential investors in hope of selecting a core investor by September 2005. Experts say a privatized NITEL possibly could compete in certain "core services," such as rural telephony, international gateways, fixed lines and data support. However, having missed the GSM boat, NITEL would be swimming against the current in an attempt to capture a share of the lucrative and expanding GSM market. End summary.

NITEL Privatization: Two Strikes, But Still in the Batter's Box

¶13. (SBU) NITEL privatization looked close in 2001 until the highest bidder, Investors International London Limited (IILL) was unable to cover its bid. In a quick move "to save face," the BPE signed a management contract with Pentascope in 2003. Critics claim the selection process was flawed while the BPE claims it selected the best of 14 companies that included: China's Netcom, India's BSCNL/TCIL and the multinational consortium, Africa Access/BT Teleconsult.

¶14. (SBU) Ken Igbokwe, Managing Partner, PricewaterhouseCoopers (PWC) Nigeria, told us TCIL was the best in PWC's assessment but Pentascope was also a commendable choice. However, members of the House committee on telecom and the existing NITEL board wanted a non-Indian company and thus selected Pentascope.

¶15. (U) Beyond the controversy over its selection, Pentascope stands accused of running NITEL aground, and of funding recurrent expenditures, including staff salaries, from monthly bank overdrafts. Critics say in the two years of Pentascope management, NITEL lost naira 100 billion. The BPE counters that losses are attributable to its constant loss of market share to private telecom operators and GSM operators. The BPE also notes that Pentascope was saddled with large debts previously incurred by NITEL, such as a USD 200 million debt to ZTE, Motorola and Ericsson.

¶16. (U) NITEL Lagos Zone officer, Ig Nwangwu, confirmed NITEL is not in great shape. A 250,000-line expansion plan has been outstanding since early 2004. However, since 2001, functional lines have declined from 455,000 to 288,000. Efforts are being made to restore lines but funding is lacking.

Political Undertones to the Controversy

¶17. (SBU) Some observers allege that political vendettas have caused this alleged mismanagement to deteriorate into a scandal that will not go away. Igbokwe of Price Waterhouse Coopers (PWC) said beleives President Obasanjo approved the investigation into Pentascope to needle VP Atiku, who purportedly has a financial stake in Pentascope. Some claim the Vice President, who as Chair of the National Council of Privatization, influenced El-Rufai's decision to grant Pentascope the management contract. Moreover, El-Rufai is in the doghouse with some National Assembly members because he accused two Senators of attempted bribery.

8 (SBU) New BPE boss, Irene Chigbue also referred to "political obstacles" in NITEL's privatization.

However, Chigbue said the BPE is forging ahead: "Getting it right this time around should put an end to the controversy." Chigbue added trying to put NITEL on better footing before privatizing, is "throwing good money, after bad." The best thing is to sell as-is, which the BPE plans to do before 2007.

NITEL: Is it viable?

¶ 9. (U) Communications Minister, Cornelius Adebayo, recently declared that a privatized NITEL, leveraging available infrastructure and network backbone, would put up a good fight to regain its market share. An industry operator, Dirk Smet of Starcomms agrees that a repackaged NITEL could be a formidable competition in the telecom market, if it focuses on core services like international gateway, fixed line and data support. NITEL recently launched its wholesale IP product, which will provide NITEL users guaranteed bandwidth to the worldwide Internet via the SAT-3 cable.

¶ 10. (U) Comment: The GON has failed to privatize its major utility companies (telecom, power, oil and gas). This has buttressed accusations that it lacks the political will wrestle the vested interests linked to these parastatals. Given the GON's checkered history in perfecting sales of these major utilities and NITEL's chronic impuissance and dwindling market share, a stampede of potential investors is highly unlikely. The BPE will be hard-pressed to "get it right this time" by conducting a competent bidding process that ends in the selection of a competent and financially capable investor. It remains to be seen whether the GON lives up to the BPE's pledge to "get it right this time".

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